

*Presentation to the
Colorado Secure Savings Plan Board
Study A and B – Progress Update*

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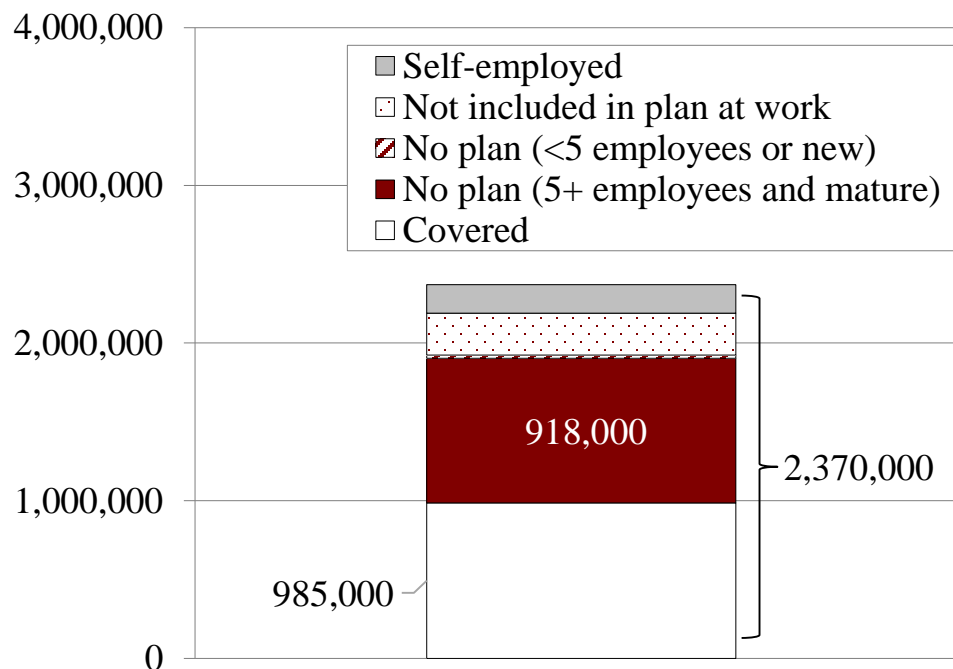
November 18, 2019

Agenda

- Study A: Colorado Secure Savings Plan
 - Market analysis
 - **Employees**
 - Employers
 - Financial analysis
- Study B: Colorado Small Business Marketplace
 - Market analysis
 - Employer response
- Next steps

Colorado Secure Savings – as written – could expand coverage to over 900,000 employees.

Number of Private Sector Workers in CO by Coverage Status, 2019



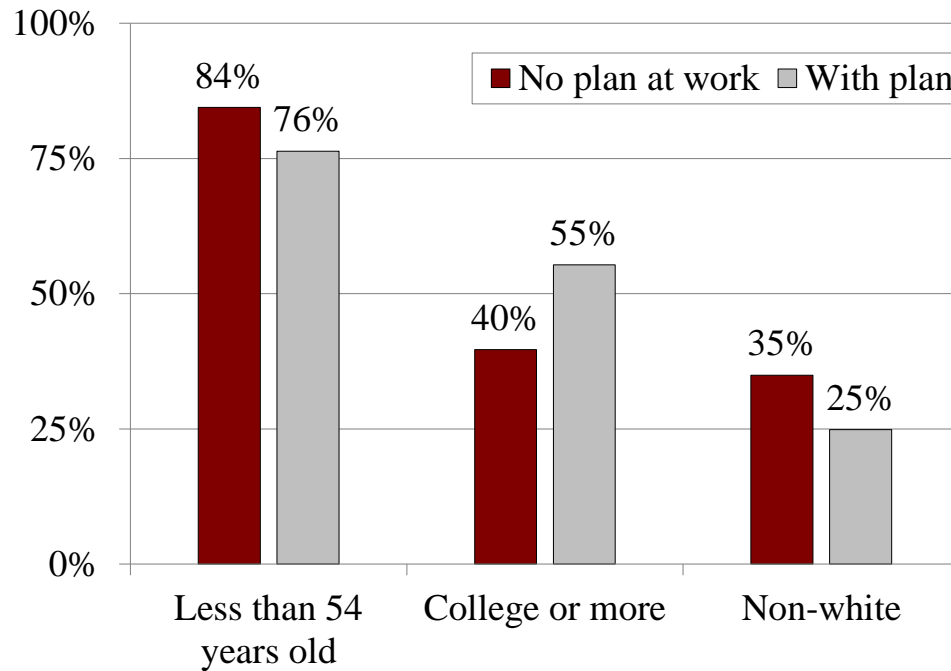
Sources: CRR calculations from *Current Employment Statistics* (2019); *Current Population Survey* (2014, 2018); and *Business Dynamics Statistics* (2016).

Knowing more about these 900,000 workers can help Colorado tailor its program.

- Demographic information, such as age, education, and race/ethnicity, can help target communication strategies.
- Workers' financial situation and sophistication can highlight challenges to saving and inform plan investment choices.
- Earnings levels inform how much workers need to save and how much revenue the contributions will generate.

Colorado workers without a plan at work are more likely to be younger, less educated, and non-white.

Demographics of CO Workers by Coverage Status, 2018



These workers have little other savings or experience with financial markets...

Financial Status and Literacy of CO Workers by Coverage Status

	Not covered	Covered
<i>Financial situation</i>		
Can come up with \$2,000	38%	78%
Receives government transfer	18	13
Used unconventional credit sources	34	24
<i>Interaction with the financial system</i>		
Has checking account	90%	99%
Owns non-retirement investments	12	49
Gets paid in cash or by check	48	20
Uses credit cards to purchase things	51	86
Uses debit cards to purchase things	68	72
Pays for things online	56	88
<i>Financial literacy</i>		
Understands compounding	64%	79%
Understands diversification	26	57
Learned about finance at school	11	20
Learned about finance at work	3	12

Source: CRR calculations from Financial Industry Regulatory Authority (FINRA) *National Financial Capability Study* (2012, 2015).

...work fewer hours and earn less than covered workers...

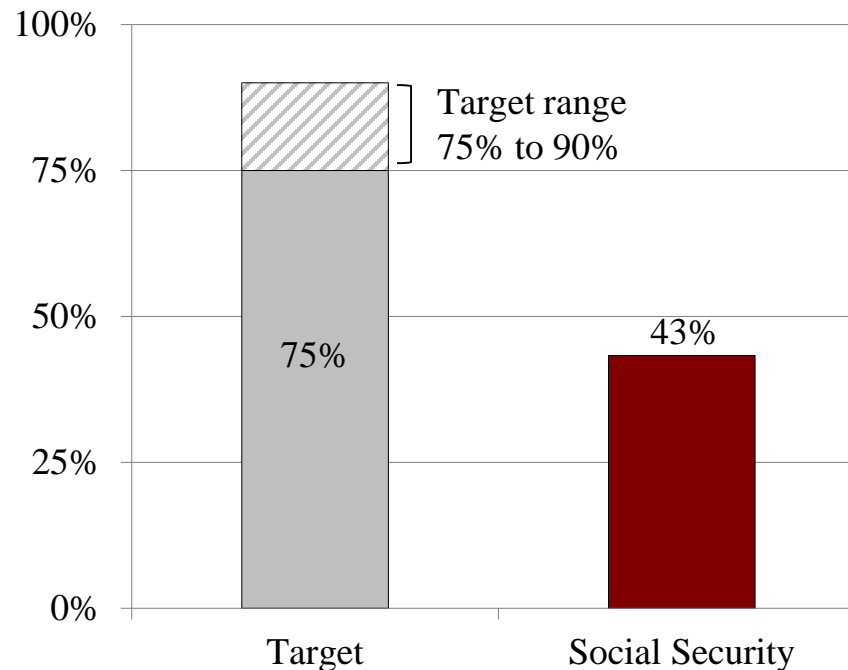
CO Employees Earnings and Hours Worked by Coverage Status, 2014

Hours	No plan at work		With plan	
	Share	Median earnings	Share	Median earnings
1-34	18%	\$13,274	5%	\$35,027
35+	82	\$39,296	95	\$62,165
Total	100%	\$34,669	100%	\$60,849

Sources: CRR calculations from *Current Employment Statistics* (2019); *Current Population Survey* (2014); and *Business Dynamics Statistics* (2016).

...but earn enough that they cannot rely on Social Security alone in retirement.

Target Replacement Rate and Replacement from Social Security

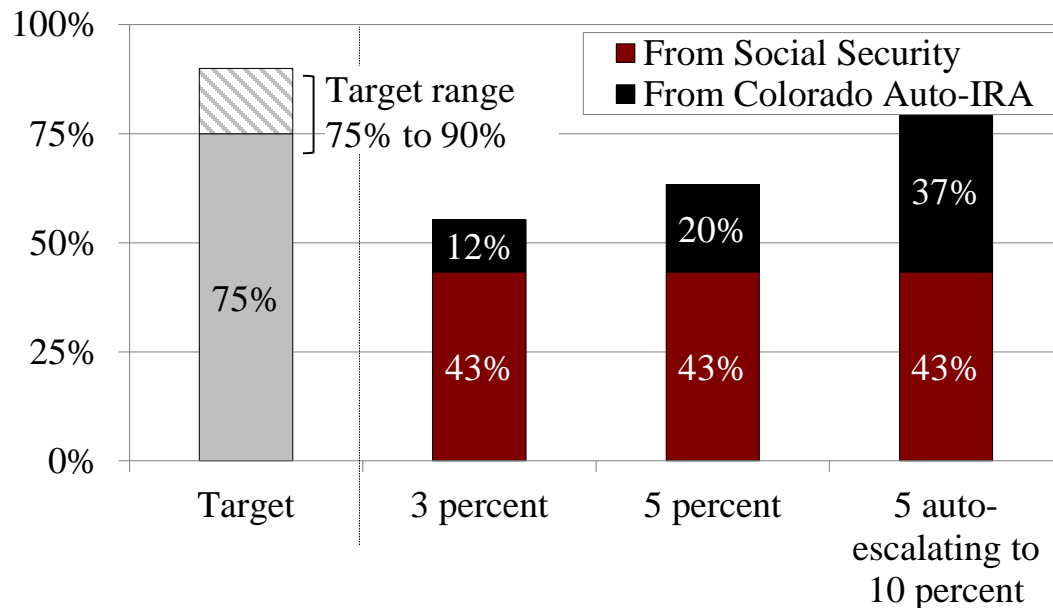


Note: Assumes continuous work from ages 25 to 65.

Source: CRR calculations from *Current Population Survey, March Supplement* (2018).

For these workers, Auto-IRAs can bridge the gap between Social Security and needs.

Target Replacement Rate and Replacement from Social Security and Auto-IRA Program



Note: Assumes continuous work from ages 25 to 65.

Source: CRR calculations from *Current Population Survey, March Supplement* (2018).

Our report will provide an expanded market analysis for employees that includes:

- additional demographics, industry, and job mobility data for eligible employees;
- a discussion of state policy levers to best reach this market segment; and
- an assessment of anticipated employee response to the program based on Oregon data.

Agenda

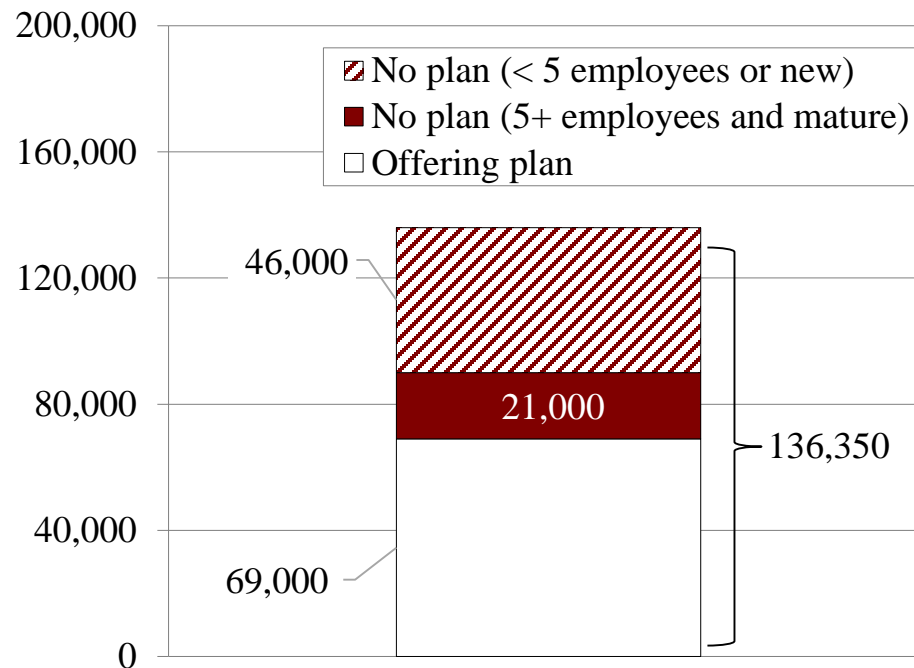
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Employers play a key role in facilitating Auto-IRA programs. They must:

- introduce the program to their employees;
- register with the program through an online portal;
- provide data on employees for initial enrollment;
- facilitate opt-out;
- make deductions and maintain records; and
- enroll new employees.

Under the current legislation, Secure Savings would require 21,000 employers to participate.

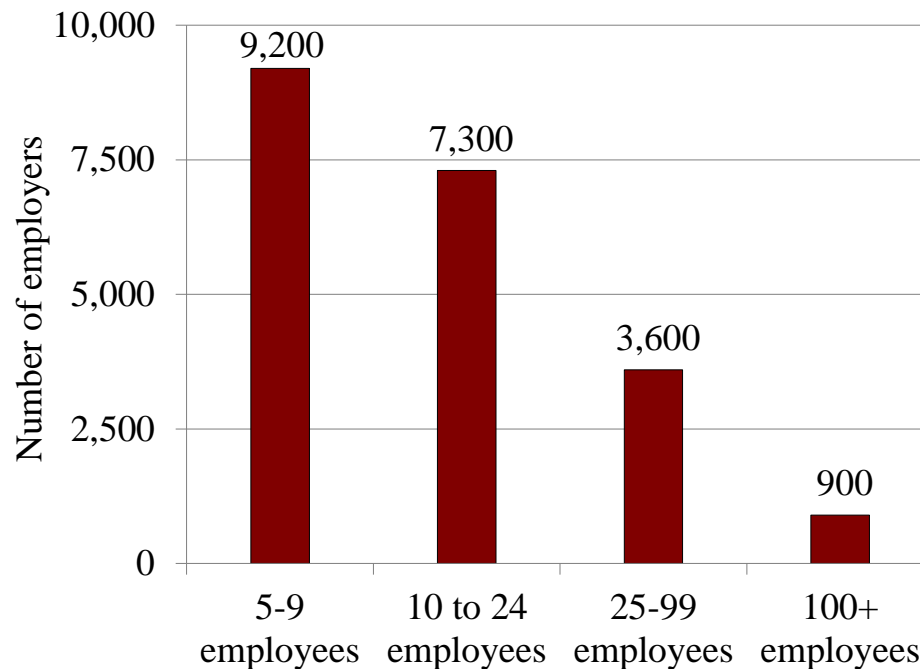
Number of Private Sector Employers in Colorado, 2019



Sources: CRR calculations from *Current Employment Statistics* (2019); *Current Population Survey* (2014, 2018); and *Business Dynamics Statistics* (2016).

Most of these employers are small, with fewer than 100 employees.

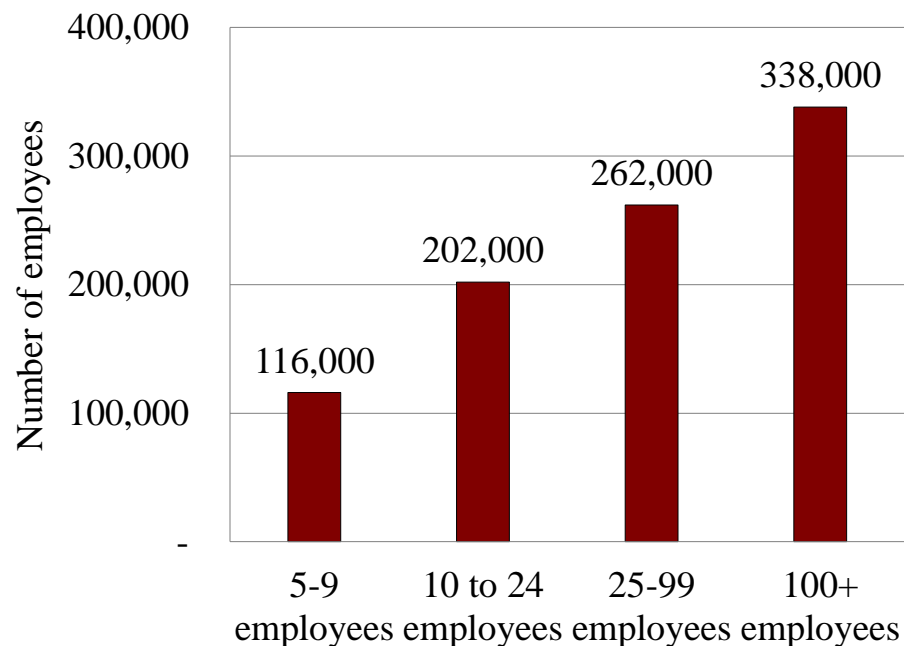
Number of Employers affected by Colorado Secure Savings, by Number of Employees



Sources: CRR calculations from *Statistics of U.S. Businesses* (2015); *Business Dynamics Statistics* (2016); and *National Compensation Survey* (2017).

But, targeting both large and small employers will be necessary to reach all eligible employees.

Number of Employees Affected by Colorado Secure Savings, by Firm Size



Sources: CRR calculations from *Statistics of U.S. Businesses* (2015); and *National Compensation Survey* (2017).

The full report will provide an expanded market analysis for employers that addresses:

- the degree to which different types of employer mandates might impact employer participation;
- the burden of administrative costs on small employers; and
- the challenge of identifying employer exemption status and tracking employer behavior.

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For an Auto-IRA program to be financially feasible, the program must:

- cover the sponsor's costs within a reasonable period;
- be profitable for a program administrator; and
- charge a reasonable fee.

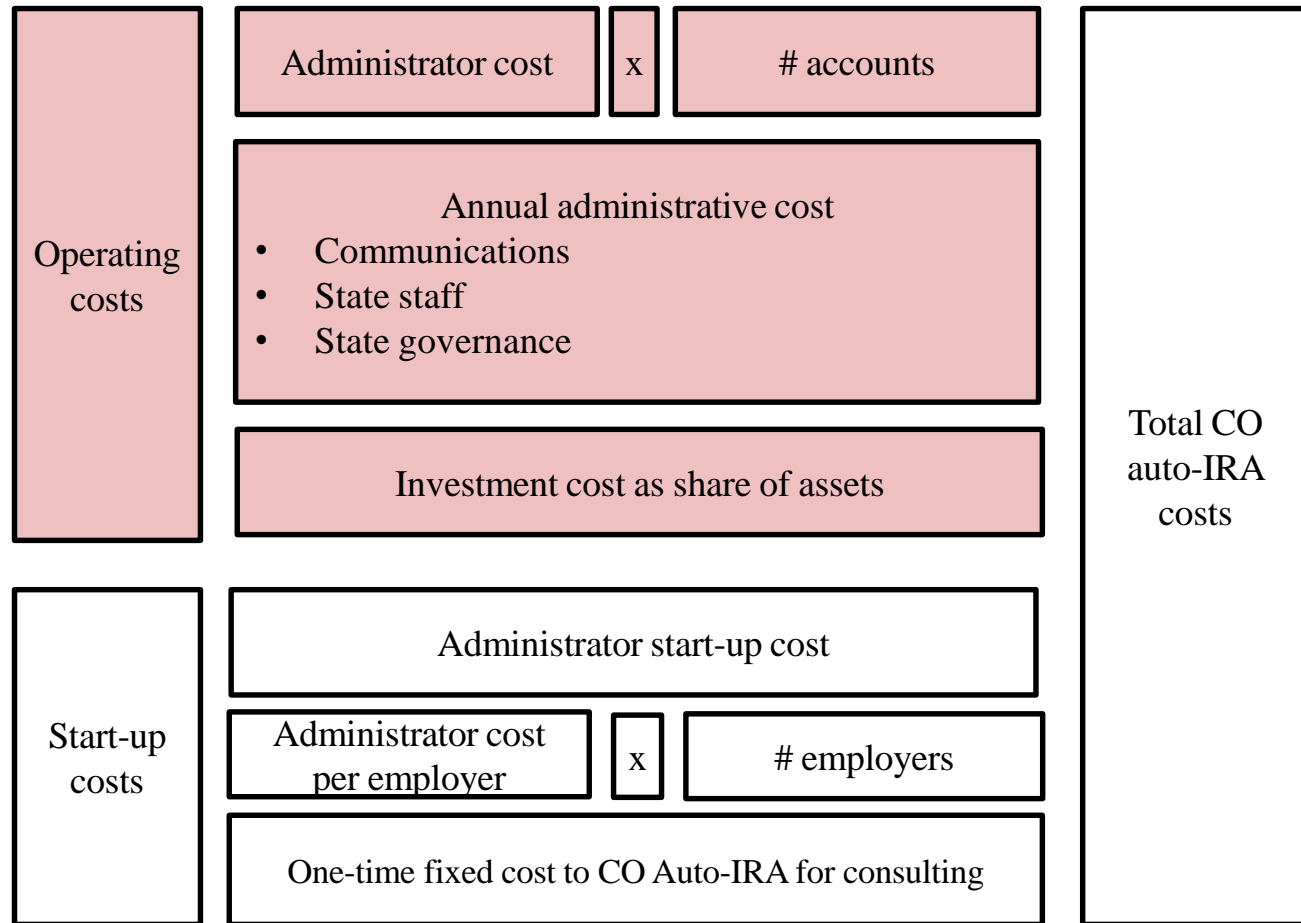
The CRR analysis relies on three main metrics of financial performance.

1. Years to Positive Cash-flow: When does the program cover the ongoing costs of the State and a private-sector administrator?
2. Years to Net Positive: When can the program repay losses that occur at start-up (both from fixed start-up costs and operating losses) for both the State and administrator?
3. Largest Cumulative Loss: How large are the start-up costs and the initial operating losses for the State and administrator?

Becoming *cash-flow positive* depends on program revenue.

- Other states have chosen to collect revenue using a single fee that is a percentage of assets under management.
- The revenue is then split between the:
 - state (~15 percent);
 - program administrator (~75 percent); and
 - investment manager (~10 percent).
- For CO, a fee of 100 basis points is the starting assumption for the first 5 years of the program, reduced to 75 bps thereafter.

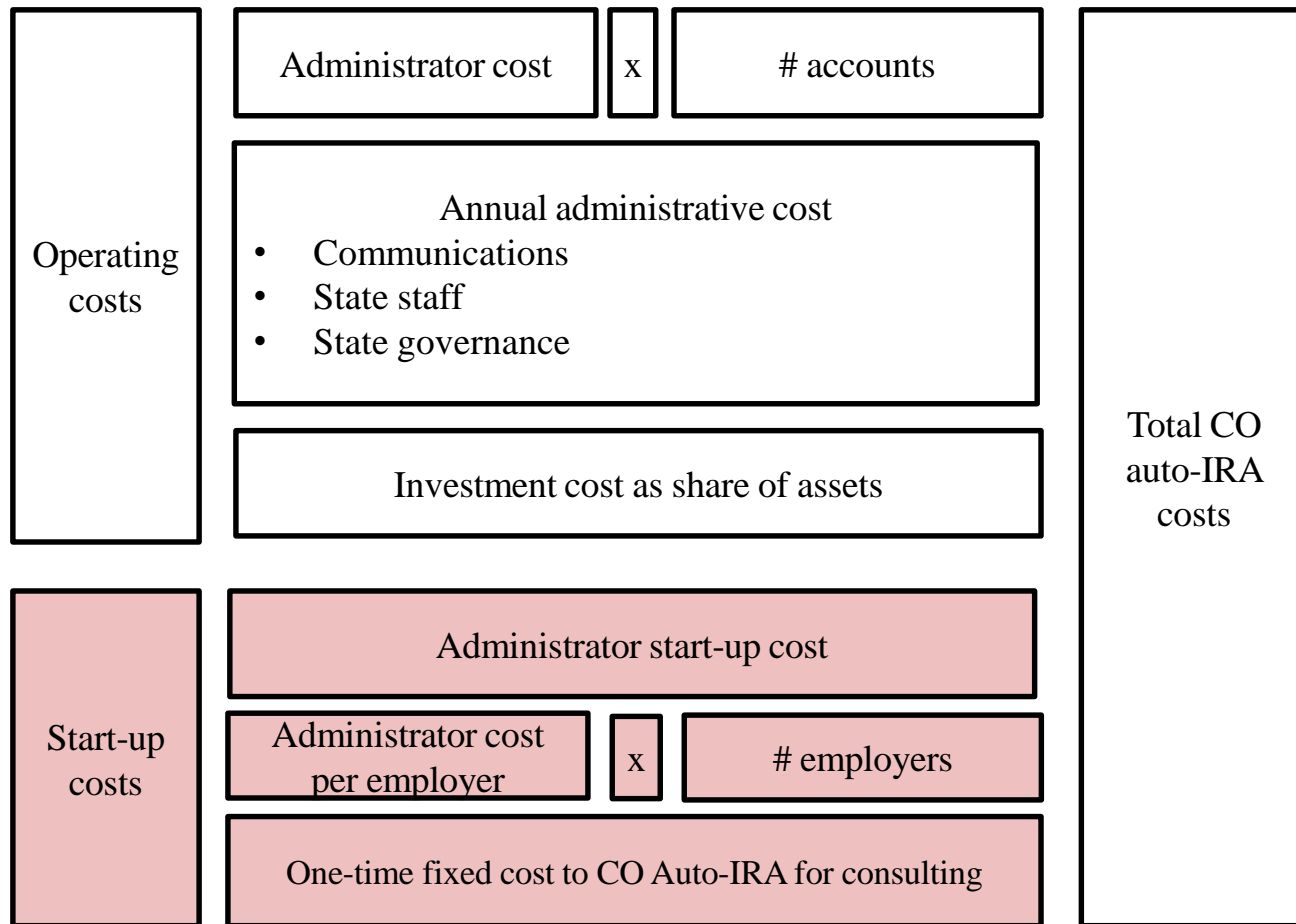
This fee offsets operating costs incurred by the state and administrator.



For both parties, operating costs will exceed revenue for some period of time.

- For the state, this loss occurs because the costs are relatively constant throughout, but revenue is limited by small balances.
- For the administrator, the fee on account balances does not initially cover the fixed cost per account.

To be *cost neutral*, profits need to offset initial operating losses and start-up costs.



To project these metrics for Colorado, we developed a financial model, which:

- reflects the number of CO workers whose employer does not offer a retirement plan;
- uses those workers' annual incomes, which determine how much they contribute, and ultimately how much revenue the program generates; and
- reflects unique aspects of CO's program – including the type of employer included, fees declining from 100 to 75 bps, and a reimbursement for small business expenses.

The model will be used to project outcomes under a variety of scenarios.

Colorado Feasibility Model

Model Inputs	Model Outputs																														
I. Eligible Population Employers included: <input type="text" value="All employers"/> Employer participation rate: <input type="text" value="80%"/>	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 50%; text-align: center;">Administrator</th> <th style="width: 50%; text-align: center;">State of Colorado</th> </tr> </thead> <tbody> <tr> <td>Year cover ongoing costs: #</td> <td>Year cover ongoing cost: #</td> </tr> <tr> <td>Year profit realized: #</td> <td>Year losses paid back: #</td> </tr> <tr> <td>Largest loss (\$m): \$X.X</td> <td>Largest loss (\$m): \$X.X</td> </tr> </tbody> </table>	Administrator	State of Colorado	Year cover ongoing costs: #	Year cover ongoing cost: #	Year profit realized: #	Year losses paid back: #	Largest loss (\$m): \$X.X	Largest loss (\$m): \$X.X																						
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II. Contributions, Participation, and Withdrawals Contribution rate: <input type="text" value="5 percent"/> Estimate of opt-out rate: <input type="text" value="Observed in OR (40 percent)"/> Rate of return on investments: <input type="text" value="Middle blended (5 percent)"/> Annual in-service leakages: <input type="text" value="\$100"/> Share leavers taking lump sum: <input type="text" value="Observed in OR (20 percent)"/>	<div style="display: flex; justify-content: space-between;"> <div style="width: 45%;"> Accounts </div> <div style="width: 45%;"> Assets (\$m) </div> </div>																														
III. Program Costs and Revenue Administrator startup cost: <input type="text" value="Recommended (\$1.0m, \$200 per emp)"/> Administrator per account cost: <input type="text" value="Conservative (\$35)"/> State startup cost: <input type="text" value="Based on OR (\$730k)"/> State ongoing cost: <input type="text" value="Based on OR (\$730k)"/> Fees on net asset values yr1-5: <input type="text" value="100 basis points"/> Fees on net asset values yr6+: <input type="text" value="75 basis points"/> Fee Split Invest/State/Record: <input type="text" value="10/15/75"/>	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th></th> <th style="text-align: center;">Year 3</th> <th style="text-align: center;">Year 5</th> <th style="text-align: center;">Year 10</th> <th style="text-align: center;">Year 15</th> </tr> </thead> <tbody> <tr> <td>Accounts (act & inactive)</td> <td style="text-align: center;">XXX</td> <td style="text-align: center;">XXX</td> <td style="text-align: center;">XXX</td> <td style="text-align: center;">XXX</td> </tr> <tr> <td>Assets (\$m)</td> <td style="text-align: center;">\$XXX</td> <td style="text-align: center;">\$XXX</td> <td style="text-align: center;">\$XXX</td> <td style="text-align: center;">\$XXX</td> </tr> <tr> <td>Assets per account</td> <td style="text-align: center;">\$XXX</td> <td style="text-align: center;">\$XXX</td> <td style="text-align: center;">\$XXX</td> <td style="text-align: center;">\$XXX</td> </tr> <tr> <td>Maximum ongoing cost reimbursed/employer:</td> <td></td> <td></td> <td style="text-align: center;">\$XX</td> <td></td> </tr> <tr> <td>Maximum start-up cost reimbursed/employer:</td> <td></td> <td></td> <td style="text-align: center;">\$XX</td> <td></td> </tr> </tbody> </table>		Year 3	Year 5	Year 10	Year 15	Accounts (act & inactive)	XXX	XXX	XXX	XXX	Assets (\$m)	\$XXX	\$XXX	\$XXX	\$XXX	Assets per account	\$XXX	\$XXX	\$XXX	\$XXX	Maximum ongoing cost reimbursed/employer:			\$XX		Maximum start-up cost reimbursed/employer:			\$XX	
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IV. Small Business Reimbursement Small business start-up reimbursement: <input type="text" value="\$0"/> Small business monthly cost for outside provider: <input type="text" value="\$0/month"/> Small business monthly cost for staff time: <input type="text" value="\$0/month"/>																															

Three main types of inputs are included:

1. Economic assumptions: Investment rate of return, population growth, employee mobility, program costs, etc.
2. Assumptions about employee and employer behavior: Employer participation, employee participation, etc.
3. Plan design parameters: Employers included, default employee contribution rate, fee level, small employer reimbursement, etc.

By varying these inputs, the model can project program finances under a range of scenarios.

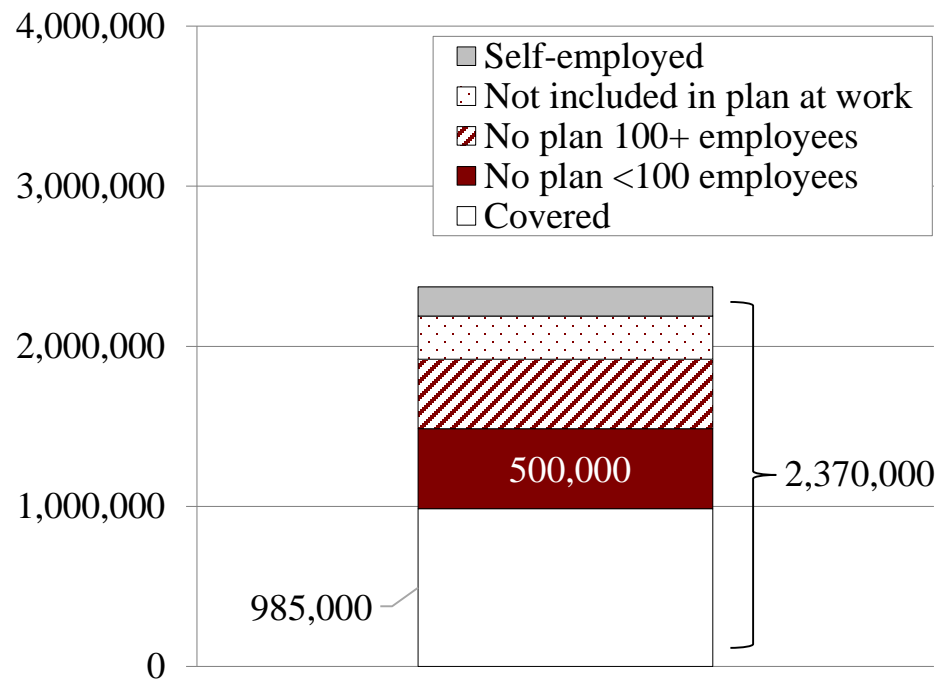
Parameter	Baseline assumption	Alternatives
Employers included	Firm size 5+/age 2+	All
Employer participation	100%	80%; 50%
Employee opt-out	40%	No change
Contribution rate	5% fixed	3% fixed, 5% with auto-escalation to 8%
All-in fee on assets	Year 1-5: 100 bps; Year 6+: 75 bps	No change
Startup costs for administrator	\$1m fixed \$200 per employer	No change
Ongoing costs for administrator	\$35 per account	No change
Startup costs for State	\$730K	1.5x, 2.0x
Ongoing costs	\$730K/year	1.5x, 2.0x
Small employer reimbursement start-up	None	\$200; \$400
Small employer reimbursement ongoing	None	Staff: \$20, \$40, or \$60/month Payroll: \$20, \$40, or \$60/month

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In theory, a CO small business marketplace *could* expand coverage to 500,000 employees.

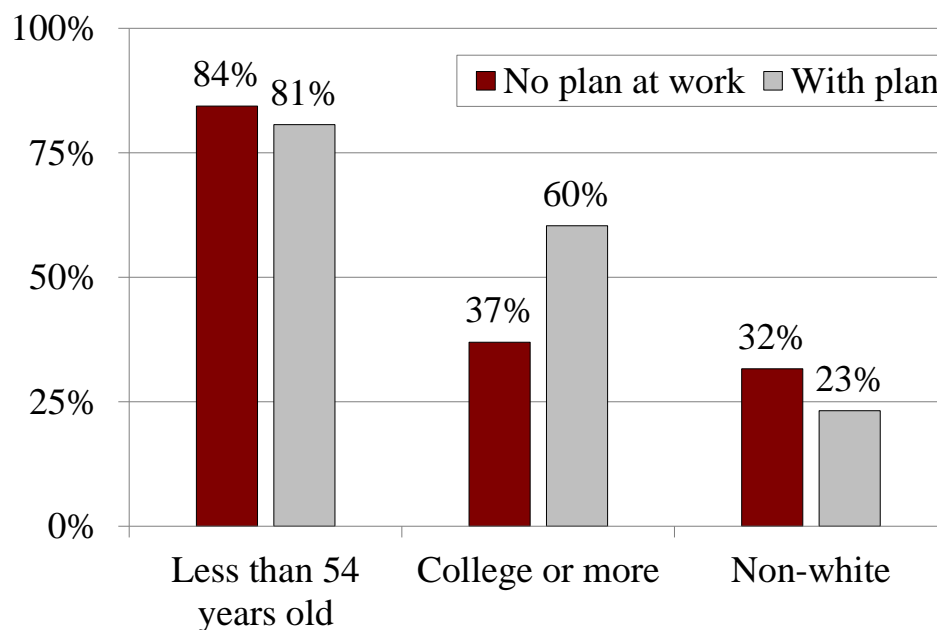
Number of Private Sector Workers in Colorado by Coverage Status, 2019



Sources: CRR calculations from *Current Employment Statistics* (2019); *Current Population Survey* (2014, 2018); and *Business Dynamics Statistics* (2016).

These 500,000 employees are more likely to be younger, less educated, and non-white.

Demographics of CO Workers at Small Employers by Coverage Status, 2018



They work fewer hours and earn less than covered workers...

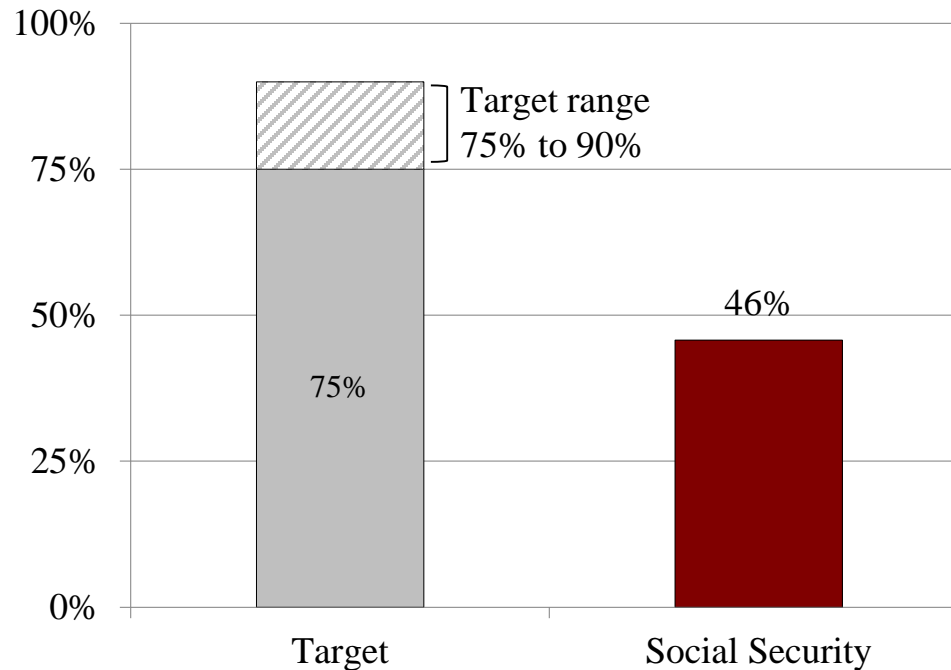
CO Employees Earnings and Hours Worked at Small Employers by Coverage Status, 2014

Hours	No plan at work		With plan	
	Share	Median earnings	Share	Median earnings
1-34	21%	\$13,347	7%	\$41,034
35+	79	\$34,508	93	\$68,705
Total	100%	\$29,993	100%	\$66,892

Sources: CRR calculations from *Current Employment Statistics* (2019); *Current Population Survey* (2014); and *Business Dynamics Statistics* (2016).

...but earn enough that they cannot rely on Social Security alone in retirement.

Target Replacement Rate and Replacement from Social Security



Note: Assumes continuous work from ages 25 to 65.

Source: CRR calculations *Current Population Survey, March Supplement* (2018).

The full report will provide an expanded market analysis for employees that includes:

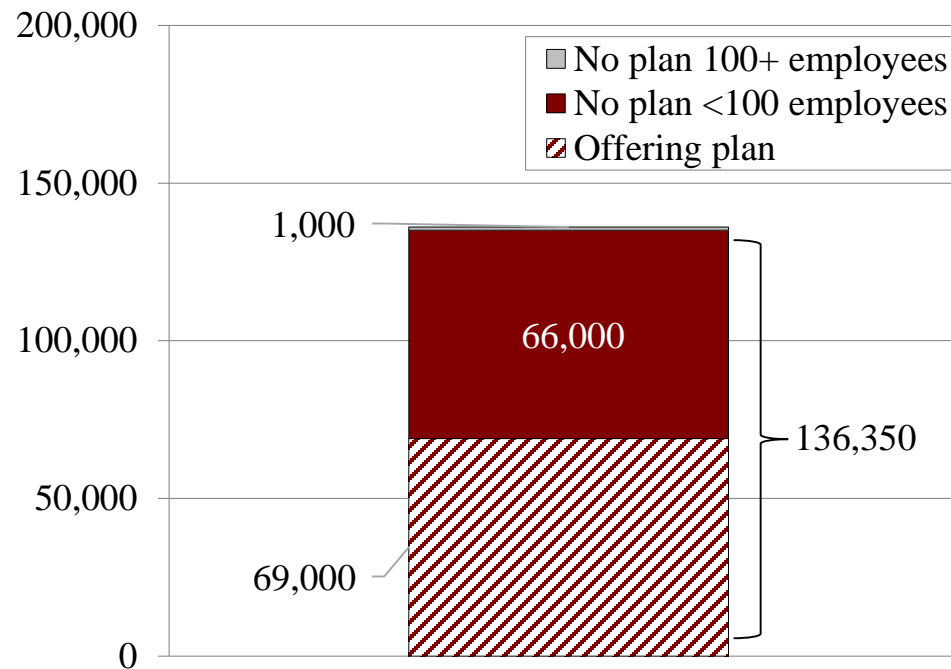
- additional demographics, as well as industry and job mobility data for eligible employees; and
- a discussion of potential communication efforts by the State to best reach this market segment.

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To reach these uncovered employees, the program would have to secure the voluntary participation of 66,000 employers.

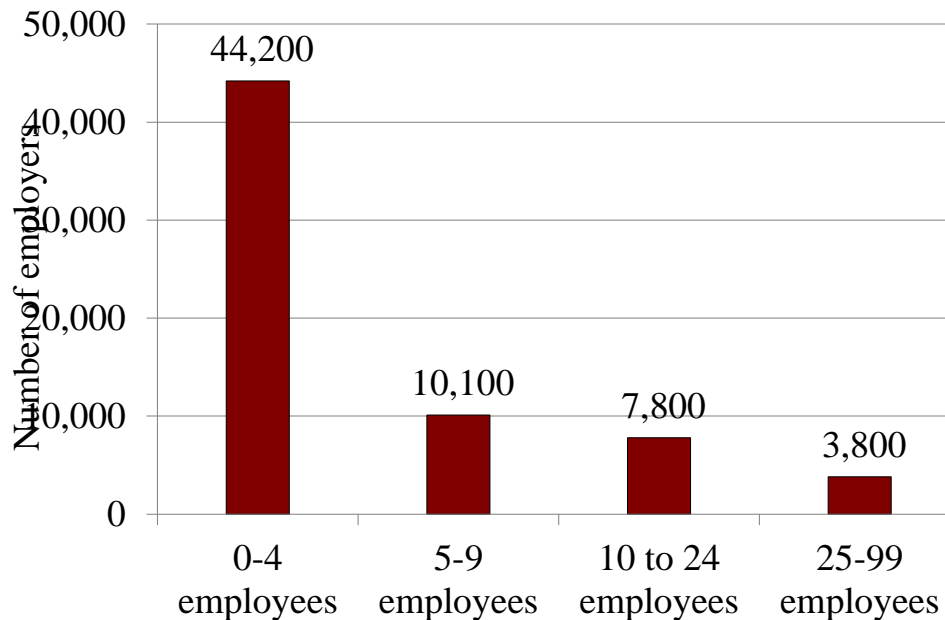
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Sources: CRR calculations from *Current Employment Statistics* (2019); *Current Population Survey* (2014, 2018); and *Business Dynamics Statistics* (2016).

Most of these employers are very small, with fewer than 5 employees.

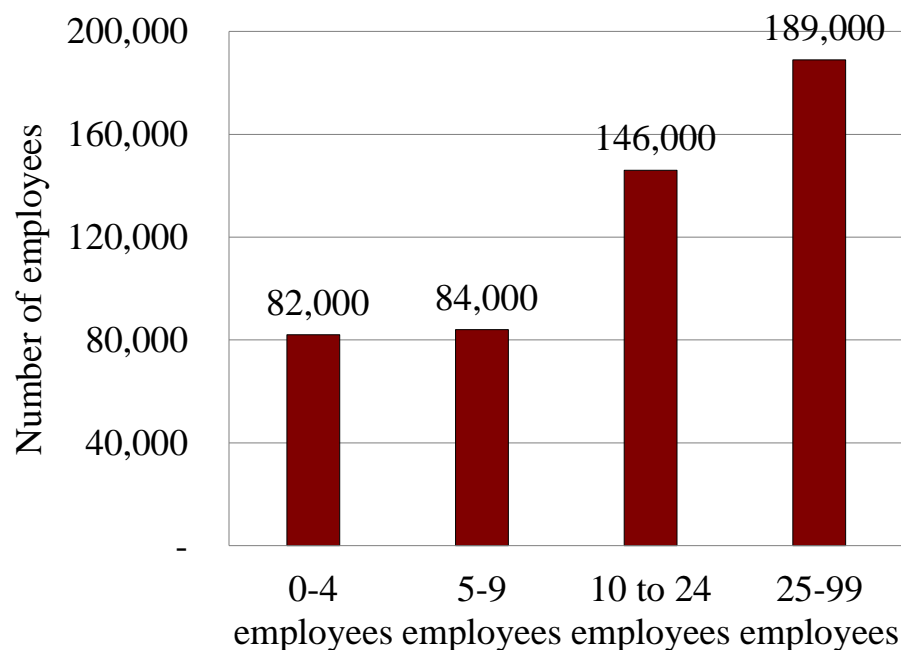
Number of Employers Affected by Colorado's Small Business Marketplace,
by Number of Employees



Sources: CRR calculations from *Statistics of U.S. Businesses* (2015); *Business Dynamics Statistics* (2016); and *National Compensation Survey* (2017).

However, employees are distributed across firms of all sizes.

Number of Employees Affected by Colorado's Small Business Marketplace,
by Firm Size



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The key to the success of a retirement marketplace is employer participation.

- Expanding employee coverage through a marketplace depends fully on the *voluntary* enrollment of employers.
- The CRR has been researching employer responses to voluntary programs including Washington's retirement marketplace, the MyRA program, and other Federal programs for small employers (SIMPLE/SEPs).
- Additional data on employer enrollment in voluntary programs is now available from the Massachusetts CORE savings plan.
- A summary of this research will be shared in the next presentation.

Costs also matter, but should be treated as a secondary concern.

- A marketplace is not designed to be cost neutral or profitable.
- The notion is that the State takes on a number of administrative tasks (and costs) to reduce the cost of the program for employers.
- The metrics for program success are dictated by employer participation, rather than program finances.
- Cost estimates relying on observations of other voluntary programs will be summarized in the upcoming draft presentation.

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The CRR is on track for the agreed upon milestones as discussed.

Milestone	Date
Kick-off meeting	10/23/2019 ✓
Progress call	11/18/2019 ✓
Presentation	12/11/2019
Draft reports (2) to Board	12/20/2019
Final reports (2) to Board	2/7/2020

The next milestone is a presentation of the draft report, and will include:

- expanded employee and employer market analyses;
- projected financial outcomes for Study A under various modeling scenarios; and
- estimates on costs and employer participation for Study B.